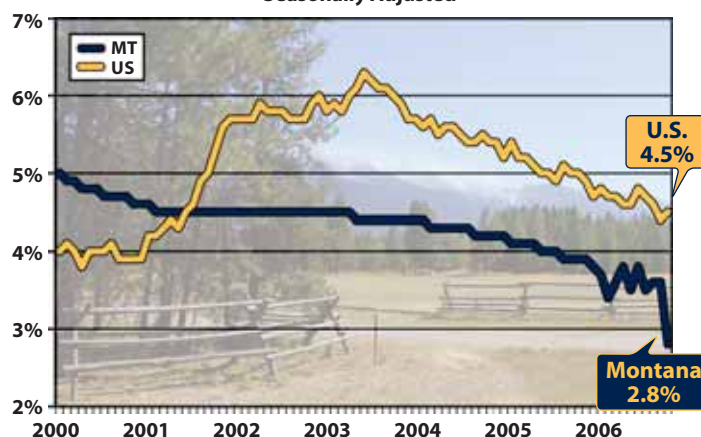


Montana Economy at a Glance



UNEMPLOYMENT RATE

Seasonally Adjusted



Montana's seasonally adjusted unemployment rate dropped to 2.8% in November 2006, down from 3.6% in October. The U.S. rate rose slightly to 4.5% from 4.4% over the month.

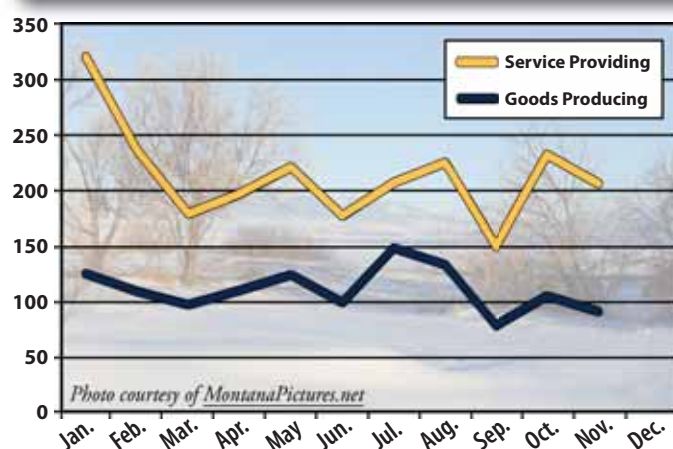
NONFARM EMPLOYMENT

January 2000 - November 2006



Montana's seasonally adjusted nonagricultural payroll employment increased by 1,100 jobs (0.3%) from October to November 2006. Leisure & Hospitality showed a gain of 300 jobs (0.5%), while Professional and Business Services lost 200 jobs (-0.6%).

NEW BUSINESS STARTS



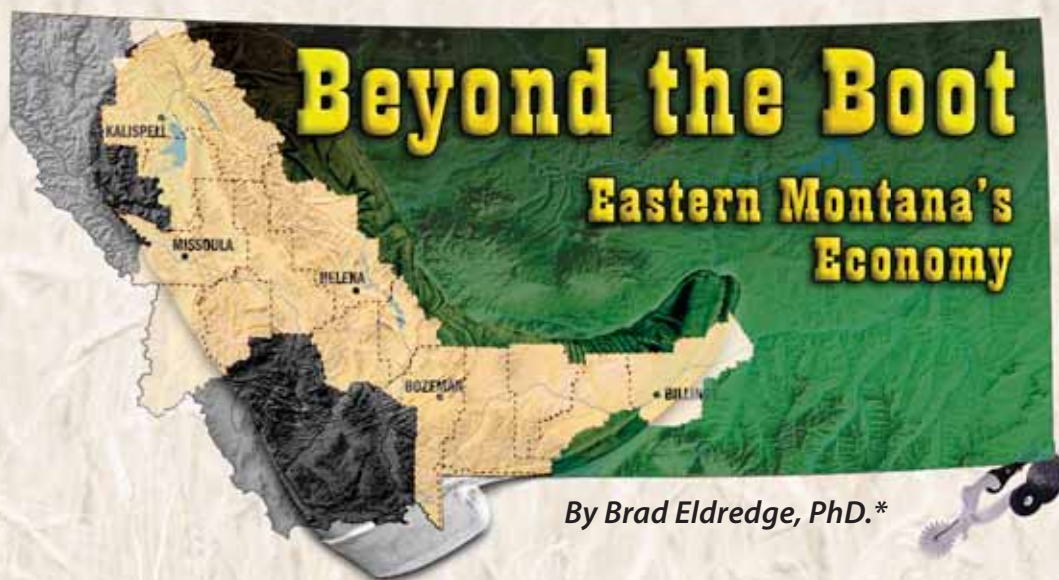
Source: Unemployment Insurance Program

New business starts declined slightly in November with 298, down almost 12% from October. Construction remains in the top spot with 24% of the starts. Gallatin and Flathead Counties are tied for having the highest number of new starts between Gallatin and Flathead, both with 14%. Next in line was Yellowstone County with 12% of the starts in November.

EMPLOYMENT BY INDUSTRY

| Industry Employment (in thousands) | Nov.(P) 2006 | Oct. 2006 | Net Change | Percent Change |
|---------------------------------------|-----------------|--------------|---------------|-------------------|
| Total Non-Agricultural | 441.9 | 440.8 | 1.1 | 0.3% |
| Natural Resources & Mining | 8.8 | 8.7 | 0.1 | 1.3% |
| Construction | 31.1 | 30.9 | 0.2 | 0.7% |
| Manufacturing | 20.6 | 20.6 | 0.0 | 0.0% |
| Trade, Transportation, Utilities | 90.1 | 90.0 | 0.1 | 0.1% |
| Information* | 7.8 | 7.8 | 0.0 | 0.0% |
| Financial Activities | 22.8 | 22.8 | 0.0 | 0.0% |
| Professional & Business Services | 38.7 | 38.9 | -0.2 | -0.6% |
| Education & Health Services* | 59.2 | 58.6 | 0.6 | 1.0% |
| Leisure & Hospitality | 57.9 | 57.6 | 0.3 | 0.5% |
| Other Services* | 17.2 | 17.1 | 0.1 | 0.6% |
| Total Government | 88.8 | 88.6 | 0.2 | 0.2% |

*These series are not seasonally adjusted (P) denotes preliminary figures



In the previous issue of Montana Economy at a Glance, we analyzed the “Cowboy Boot” region of the state’s economy. This fast growing region has been defined by Governor Schweitzer as the area “that starts in the Flathead, goes down through Missoula, turns through Gallatin, and the toe is Billings.”¹ This article follows up with an economic overview of the area east of the “Boot,” the geographically vast and sparsely populated central and eastern part of the state. For lack of a better term, we refer to this area as “Eastern Montana.”

A Rural Region

One obvious characteristic of Eastern Montana is its rural nature. The U.S. Office of Management and Budget defines two levels of urban areas, *Metropolitan Statistical Areas*, which have a core urban population of at least 50,000, and *Micropolitan Statistical Areas*, which have an urban population of at least 10,000.

Montana has three Metropolitan Statistical Areas. Billings and Missoula are in the “Boot,” while Great Falls is in Eastern Montana. The state also hosts five Micropolitan Statistical Areas.

Three of these, Bozeman, Kalispell, and Helena, are located in the “Boot,” one, Butte, is located west of the “Boot,” and only one, Havre, is located in Eastern Montana. Thus

Eastern Montana, an area slightly larger than Minnesota, contains only two cities of significant size, and has an estimated 2005 total population of just 264,800.

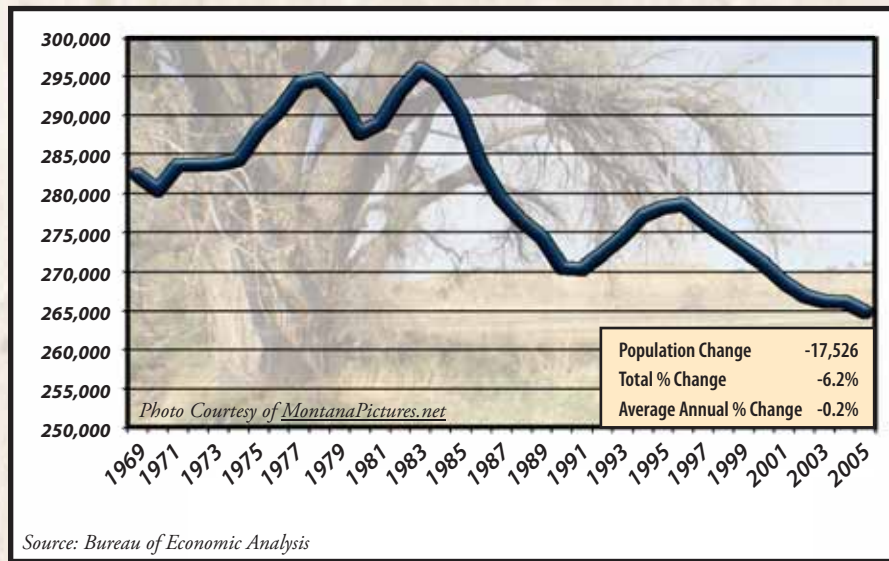
From an economic perspective, the rural nature of Eastern Montana poses accessibility challenges, resulting in less access to markets and higher transportation costs to larger markets. These are some of the same challenges facing Montana firms as a whole, and they are exacerbated in the more rural parts of the state. Rural county residents also lack access to the same variety of goods and services available in more populated areas.

These conditions contribute to a cycle of population decline, as the disadvantages of a small population motivate more households and firms to leave. This appears to be happening in Eastern Montana.

Figure One shows that population in the region peaked in 1985 and has been decreasing ever since. As population declines, the variety of goods and services available in rural areas also declines. This in turn acts as an incentive for more people to leave. A declining population can also discourage firms from moving to the region, since they may prefer the better transportation, larger markets, and more diverse labor pools available in urban areas.

**The author would like to thank Tyler Turner for his comments and assistance in gathering and analyzing data.*

Figure One: Eastern Montana Population, 1969-2005



Unfortunately, quality migration data at the county level is only available from the decennial census, making the figures presented in Table One somewhat dated. Between 1995 and 2000, over 51,000 people left Eastern Montana. Of these, over 33,000 left the state and the remaining 18,000 moved to Western Montana. Eastern Montana did have some population inflows during the same period. Over 35,000 people moved to Eastern Montana between 1995 and 2000, of which over 23,000 came from out of state and about 12,000 came from Western Montana. Overall, Eastern Montana experienced a net out-migration of about 16,500 people in the five years from 1995 to 2000.

Table One: Eastern Montana Population, 1969-2005

| | Out Migration | In Migration | Net Outmigration |
|--------------|---------------|--------------|------------------|
| Out of State | 33,261 | 23,450 | 9,811 |
| In State | 18,386 | 11,715 | 6,671 |
| Total | 51,647 | 35,165 | 16,482 |

Source: U.S. Census Bureau

While this trend may be reversing itself in areas benefiting from high energy prices, such as Richland County, Figure One shows that in the most recent five years Eastern Montana's population has continued to decline.

Industrial Diversification

Eastern Montana also lags the "Boot" in terms of industrial diversity. A statistical tool used to define and measure industrial diversity is the Hachman index². This index measures how closely a given area's industrial employment mix mirrors that of a larger region.

In this case, we compared the employment mix of both the "Cowboy Boot" and Eastern Montana to the national employment mix in 2005. The premise of the Hachman Index is that since the national economy is very

large and diverse, smaller economies with similar employment patterns can also be characterized as diverse. The index ranges from zero to one. Index values near zero indicate that local employment is concentrated in only a small number of industries, while values near one indicate local employment closely mirrors the national mix. The Hachman Index for the "Boot" was 0.90, which exceeds the 0.85 value for Eastern Montana. The fact that the "Boot" index value does not exceed the Eastern Montana value by a wider margin is somewhat surprising. An examination of the underlying data reveals that higher than expected concentrations of employment in the "arts, entertainment, and recreation" and "state government" sectors and a lack of corporate headquarter lowered the "Boot's" index value. The state capital and the largest state universities are located in the "Boot."

Industrial diversification is important because it lowers the risks associated with the decline of a key industry. If a region has several basic industries, a decline in any one of them will not cause severe economic hardship on the economy as a whole. But if a region is dependent on one or two basic industries, then hard times in one industry can mean hard times for the entire regional economy. Eastern Montana does depend heavily on a few key industries: agriculture, mining, and the federal government.

Figure Two:
Annual Change in Per Capita Income for Eastern Montana and the Cowboy Boot: 1986-2004

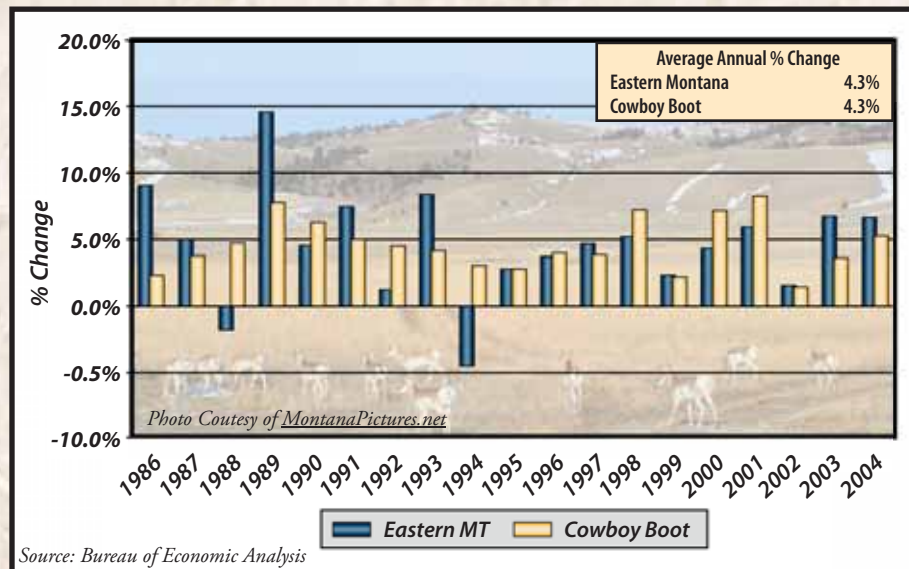
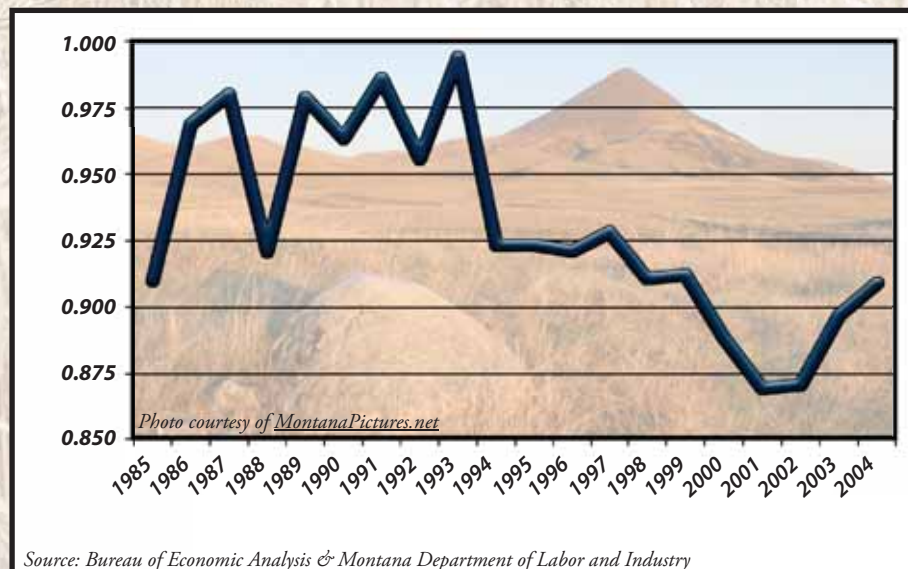


Figure Two shows the annual change in per capita personal income for the “Boot” and Eastern Montana from 1986 to 2004. Eastern Montana does experience more volatility than the “Boot,” indicating that if its residents value stability, the region could benefit from more economic diversity. Figure Three shows the ratio of per capita income in Eastern Montana relative to the “Boot” from 1985 to 2004. It is interesting to note that despite Eastern Montana’s greater volatility, the overall income ratio in 2004 was the same as the ratio in 1985.

MAPping Out the Future

The decline in population in Eastern Montana has caused concern among policy makers. Likewise, the region could benefit from less economic volatility by diversifying its industrial mix. Population is supported by a region’s export industries. The more profits come in from selling goods outside the region, the more money there is to then purchase goods from outside the region and sustain local service industries. Therefore, for Eastern Montana to reverse its population decline, its export sector needs to thrive. Currently, the region’s economic fortunes, and

Figure Three:
Ratio of Per Capita Income between Eastern Montana and the Cowboy Boot: 1985-2004



ultimately its population, are tied to the profitability of its oil, gas, coal, and agricultural sectors as well as continued net inflows of federal dollars. Much of Eastern Montana's income gains in recent years stem from high prices for the commodities it produces and generous federal agricultural subsidies.^{3 4}

Eastern Montana is also working to diversify its economic base. In 2006, Montana's Agro-Energy Plan (MAP) was awarded a three year, \$15 million dollar federal WIRED grant, to target regional economic development through workforce training and development. MAP promotes the development of a biolubricant industry in Eastern Montana.

Other attempts to diversify the economy include the recently announced coal to liquids plant near Roundup, and the installation of wind farms near Judith Gap. The possibility also exists for increased future production of

coal bed methane. Finally, the internet and advanced communications technologies make it possible to do many jobs remotely that once required residence in an urban area. With continued effort, the future could look bright for the Eastern half of Montana, which despite losing populations has managed to grow its standard of living at the same rate as the "Cowboy Boot."

Sources:

¹2005 State of the State Address, Governor Brian Schweitzer, Jan. 19, 2005.

²Eldredge, Brad "Employment Diversity in Montana," *Economy at a Glance* Dec. 2005.

³Turner, Tyler "Economic Impacts of Federal Farm Subsidies," *Economy at a Glance* Feb. 2006.

⁴Polzin, Paul E. "Economic Shake-Up," *Montana Business Quarterly* v. 44 n. 3, Autumn 2006.

Reservation Fliers

Governor Schweitzer unveils R&A's Reservation Fliers at 2006 Tribal Relations Report

Governor Brian Schweitzer unveiled The Research & Analysis Bureau's Reservation Fliers at the 2006 Tribal Relations Report, a presentation commemorating the cooperative achievements of the State and Tribal governments in 2006. The tribal chairs from all eight tribal governments in Montana were invited to attend the event, during which Governor Schweitzer presented the 2006 Tribal Relations Report, and unveiled the Reservation Fliers, which provide detailed economic

and demographic data from each reservation, and were developed cooperatively with the Tribes.

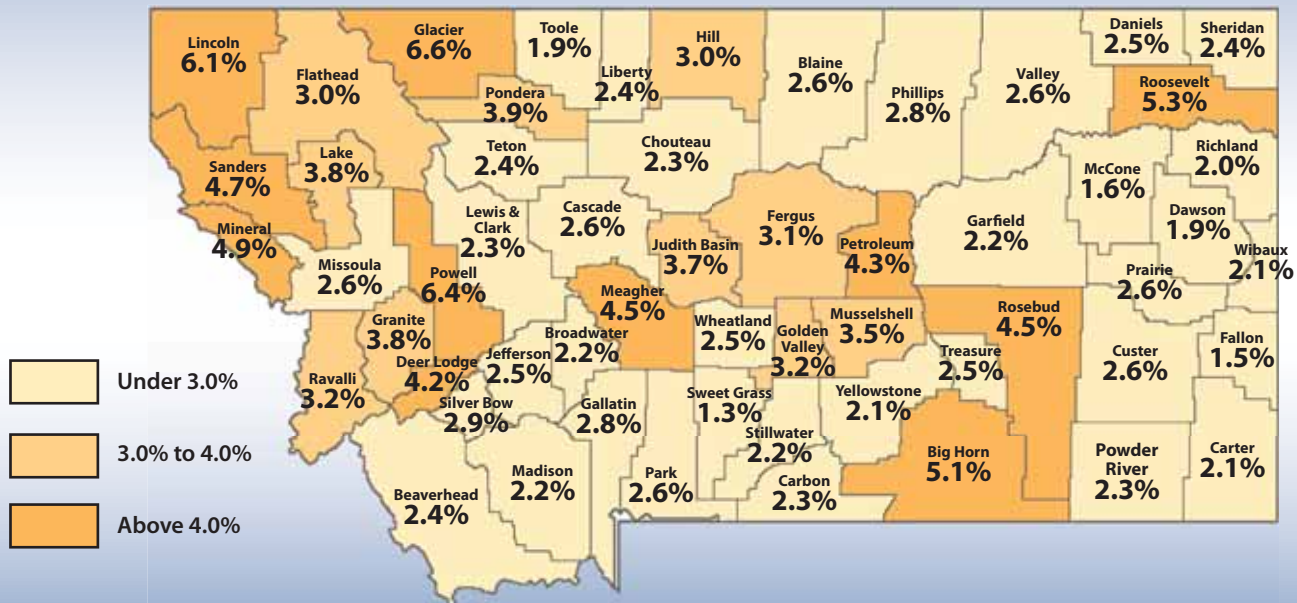
The Reservation Fliers provide, for the first time, a detailed picture of the economic and demographic status of reservations in Montana, including data on annual average wages, employment levels, agricultural statistics, income distributions, and much more.

To download the Reservation Fliers, go to: www.ourfactsyourfuture.org



COUNTY UNEMPLOYMENT RATES (NOT SEASONALLY ADJUSTED)

Montana Average Rate: 2.7%



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